CHAIR:
Energy, Utilities and
Information Technology Committee

MEMBER:
Joint Committee on Finance
Joint Committee on Audit

ROBERT L. COWLES

Wisconsin State Senator • 2nd Senate District

TO: Senate Committee on Energy and Utilities
FROM: State Senator Robert Cowles
DATE: March 10, 2008
RE: Senate Bill 448

Chairman Plale and Members of the Committee:

I am writing today to encourage you to support Senate Bill 448, which will allow the Public Service Commission of Wisconsin to direct utilities to use environmental trust bonds for environmental remediation projects. This bill will provide substantial savings to Wisconsin's energy consumers over the traditional method of financing environmental remediation projects.

By facilitating the use of environmental trust bonds, we can protect the environment and also protect the pocketbooks of electric ratepayers at the same time. Higher and higher energy costs have been a drag on Wisconsin's economy, and this bill can help to address that situation.

The voluntary use of environmental trust bonds by utilities was first authorized by a 2004 law that I authored. SB 448 will make it more likely that utilities will use environmental trust bonds to pay for environmental projects by giving the PSC the discretion to direct utilities to use the bonds for qualifying projects. Similar financing tools are available in other states. The environmental trust bonds would be secured by a charge paid by the utility's customers. These bonds would possibly qualify for AAA status and could receive a lower interest rate. Generally, this rate would be around 5%, as opposed to the rate of 12 -14% that a utility would normally receive from the PSC for these types of expenditures.

I believe that it is inappropriate for ratepayers to get charged an extra 12% to pay for environmental projects, which don't increase the energy supply at all in the state. Environmental compliance projects are important, but the costs should not be rate-based, like the cost of building a new power plant.

SB 448 is being supported by a broad coalition of consumer, business and environmental groups. The Citizens Utility Board, the Wisconsin Paper Council and the Wisconsin Industrial Energy Group are among the groups that have recognized that Senate Bill 448 will benefit Wisconsin's economy and the environment. I'm pleased that this bill has the support of groups with such diverse interests. I think this shows that we can work together to do the right thing for Wisconsin jobs, electric customers and the environment.

Thank you for considering this bill to benefit Wisconsin's businesses and citizens, and please don't hesitate to contact me if you have any questions.

Sincerely,

ROBERT L. COWLES

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WIEG
WISCONSIN INDUSTRIAL ENERGY GROUP

To: Senate Committee on Commerce, Utilities and Rail

From: Todd Stuart, Executive Director
Wisconsin Industrial Energy Group, Inc.

Re: Testimony in support of Senate Bill 448

Date: March 10, 2008

Thank you for the opportunity to present testimony on this important subject. The following comments are submitted on behalf of the members of Wisconsin Industrial Energy Group, Inc. (WIEG) in support of Senate Bill 448.

WIEG is a non-profit association of 30 large energy consumers that advocates for policies supporting affordable and reliable energy. Since the early 1970s, WIEG has been the premiere voice of Wisconsin ratepayers and an engine for business retention and expansion. Our member companies spend over $200 million annually on electricity, and collectively employ more than 50,000 Wisconsin residents, who are themselves state taxpayers and utility ratepayers. WIEG members represent most major Wisconsin manufacturing industries, including paper, food processing, metal casting and fabricating.

Industrial customers are very concerned about the reliability of electricity at affordable rates. Rates have been rising in Wisconsin and elsewhere, but industrial rates rose faster in Wisconsin between 2000 and 2005 than in any other state in the Midwest, and we have seen 7% annual increases over the last decade. The Wisconsin economy will be at risk of job losses and electricity demand destruction, especially in the manufacturing sector, if rate increases are not managed effectively.

Wisconsin will be facing a "Perfect Storm" of soaring electricity costs. By our estimate, Wisconsin is currently facing $14 billion in utility-related infrastructure costs over the next decade. Over half of this figure is due to government mandates for renewable energy and environmental compliance for air emissions standards. Further large rate increases would seriously harm our competitiveness and would lead to the loss of factories and jobs.

Wisconsin utilities plan to spend roughly $4 billion to meet CAIR, CAMR and other federal air programs to dramatically reduce emissions. Preliminary Public Service Commission (PSC) estimates are that the costs associated with CAIR and CAMR would amount to average increases of 9%-10% for Wisconsin customers. These figures do not include costs to comply with any future Global Warming regulations at the state or federal level and are therefore very conservative estimates.

The state's manufacturers strongly encourage you to consider a proposed new way to pay for these environmental mandates -- and pay for it at a lower cost to ratepayers. It is called Environmental Trust Financing (ETF). Current state law allows the creation of a trust from which low-cost bonds can be issued for the financing of emission reducing technologies.

If ETF bonds are used to finance pollution control equipment, we believe this will save hundreds of millions of dollars in avoided electric rate increases. A $1 billion investment financed by ETF bonds with an interest rate of 5 percent, for example, could save up to $500 million over 10 years. Avoiding these increases helps our economy -- and we strongly believe it will help keep our struggling manufacturing industry competitive.

We would like to call your attention to two key aspects of current law regarding ETF:
Lowest Cost for Consumers. In order to be approved by the PSC, the ETF application "will result in lower overall costs to customers than would alternative methods of financing environmental control activities." Wis. Stat. 196.027(2)6.(b)
Voluntary ETF Proposals. The PSC is prohibited from ordering the use of ETF. It is currently up to the investor-owned utility to decide whether ETF is in the interest of both their shareholders and their ratepayers and then submit an application to the PSC. There have been no ETF projects approved to date and we don't anticipate any ETF applications in the next few years.

SB 448 makes one simple change to current law. This bill would allow the PSC to order the state's utilities to apply for the ETF financing method for pollution control upgrades. This is because the PSC has a legal obligation to balance the interests of the both the shareholders and the ratepayers.

Utilities and their investors oppose SB 448 for a number of reasons. The state's major utilities are for-profit entities that earn a healthy authorized return on every investment they make. Forcing them to use ETF bonds, they argue, means they'll make less money.

We agree. But because these billion-dollar investments are mandated by federal law, and because those investments produce no economic return in the form of new electricity supplies, we're simply seeking a creative way to generate the capital to pay for these pollution control investments without forcing even more of a burden on ratepayers. We have to invest smartly in technologies that do the most good with the least financial impact.

Wisconsin is facing the perfect storm of escalating energy costs and the loss of well-paying manufacturing jobs. Manufacturing pays 26% more than the average wage for all private-sector workers. Since 1999, Wisconsin has lost 100,000 manufacturing jobs with 10,000 lost last year alone. By the end of this year at least 1,000 papermaking jobs will be eliminated.

WIEG believes SB 448 is a strong start. We encourage lawmakers to seriously consider this as an important tool the PSC can use to weigh the utilities' need for return on investment with consumers' needs to keep their lights on and our factories running. Thank you for your attention and I can address any questions that you may have at this time.

Wisconsin State Legislature
Senate Committee on Commerce, Utilities and Rail
Public Hearing on Senate Bill 448
March 10, 2008, 11:00 a.m.
Room 330 Southwest, State Capitol

Testimony of Joe Mettner on behalf of Wisconsin Public Service Corporation

I am appearing today on behalf of Wisconsin Public Service Corporation (WPSC) to testify in opposition to Senate Bill 448, relating to utility environmental trust financing, and I appreciate the opportunity to share the company's views on this proposed legislation.

WPS believes that Senate Bill 448 represents misguided public policy and should not receive the favorable recommendation of this Committee or the approval of the legislature for three primary reasons. First, the legislation would eliminate the provisions originally enacted in 2003 Wisconsin Act 152 (Act 152) which made the environmental trust mechanism an elective financing tool, to be utilized only upon the application and request of a public utility with the subsequent approval of the Public Service Commission. This change would effectively provide the Public Service Commission the authority to order or compel the use of environmental trust financing by a public utility. WPS contends that this change would greatly upset the normal or historically accepted order of regulatory oversight by permitting the Commission to substitute its judgment for that of the executive management of Wisconsin's investor-owned public utilities in matters of capital finance. Had Act 152 been originally drafted to include this authority, the legislation would likely have received the near unanimous opposition of the investor-owned public utilities in Wisconsin.

Second, the legislature should be mindful that the environmental trust financing mechanism itself is extremely complex to utilize. If environmental trust bonds are ever appropriate for the capital needs of a public utility, they should be utilized in fairly rare instances for defined and limited term purposes. A variety of securitized trust bond financing has been used by utilities in other jurisdictions for defined and non-recurring categories of expenses, such as those related to natural disasters or uniquely created regulatory assets like "stranded costs," typically amortized over relatively short maturity periods.

Tying together "environmental control property" to a dedicated financing charge revenue stream sufficient to amortize debt underlying the environmental control property over long asset lives would be an extremely complex task under the best of circumstances. The task is made more difficult still by the presence of multiple regulatory cost jurisdictions under which an asset like a power plant operates, their respective authorities over issues of cost recovery in rates, and the changing profile of purchased power contracts for the output of a plant over its useful life. The willingness and capability to undertake these complex issues is best left to the expertise -- and discretion of the professional management of the public utilities, and not the will of the PSC.

Third, the legislature should be reluctant to provide the Commission the authority to compel the public utilities to use environmental trust financing under the theory that such financing ultimately saves ratepayers money, because this is not necessarily an enduring and true argument. Environmental trust financing is currently envisioned as a variety of "off balance sheet" debt, indeed the statutes as currently written preclude the PSC from considering environmental trust bonds to be the debt of the issuing public utility. See, s. 196.027(3), Wis. Stats. There is no guarantee over time that credit rating agencies will continue to view the environmental trust bonds similarly, especially if they are used extensively.

Credit rating agencies, as they have in the past, may alter their views and come to regard expansive use of environmental trust financing as compromising to the creditworthiness of the public utility. This would be due in part to what a rating agency may view as the detrimental effects that environmental trust bonds may have on a traditional debt to equity ratio for a financially healthy public utility. If utility creditworthiness is seen as degrading, it will become more expensive for that utility to borrow money in the credit markets, and equity investors will demand greater returns for their comparatively more risky investment, or choose to invest elsewhere. None of this is good for the financial health of Wisconsin's public utilities, their ratepayers and shareholders, the ability of the utilities to attract capital, and the future direction of rates.

For the above reasons. WPS respectfully urges the Committee to oppose SB 448.

Wisconsin Utility Investors, Inc.

10 East Doty Street, Suite 500, Madison, WI, 53703-3397 – (608) 663-5813 – Fax (608) 283-2589 – wui@wuiinc.org

Opposition to SB 448 – Mandatory Debt Bill
Wisconsin Utility Investors, Inc.
Roger Cole, Chairman
March 10, 2008

I am Roger Cole, Chairman of Wisconsin Utility Investors, Incorporated. Thank you for this opportunity to express WUI opposition to Senate Bill 448.

Wisconsin Utility Investors, Inc. is a non-profit organization representing the shareholders in Wisconsin's five investor-owned utilities. These individual shareholders are, primarily, tens of thousands of retirees or people saving for retirement.

We invest in Wisconsin utilities for their historic security and sound management and to help grow our state. Our members are proud of the role they play in providing the capital that allows our utilities to run clean while keeping pace with our state's growth.

The WUI Board of Directors has discussed SB 448 at great length. We have no opposition to the option of environmental trust financing or any other means of lowering the cost of money. We are strongly opposed to the imposition of mandates that take decisions regarding capital and borrowing away from the companies we invest in.

These decisions are the most basic any company makes. Without capital, there is no capitalism.

Now, I will turn it over to our Executive Director, Bob Seitz, to discuss our concerns in more depth.

Wisconsin Utility Investors, Inc.

10 East Doty Street, Suite 500, Madison, WI, 53703-3397 – (608) 663-5813 – Fax (608) 283-2589 – wui@wuiinc.org

Opposition to SB 448 – Mandatory Debt Bill
Wisconsin Utility Investors, Inc.
Bob Seitz, Executive Director
March 10, 2008

Chairman Plale and Committee Members; thank you for this opportunity to speak on Senate Bill 448 regarding mandatory financing of environmental projects through borrowing.

Like one of those pre-approved, low-interest introductory rate credit cards we all get in the mail, Senate Bill 448 offers all of the benefits that go along with borrowing money with a little less of the pain – at first.

Really, Senate Bill 448 is like one of those amazing credit card offers on steroids. With SB 448, whether you choose the offer or not, it goes into effect and starts borrowing. You lose the ability to pay cash. Purchases automatically go on the credit card.

You will hear today from experts who will debate every technical aspect of this bill. You will be told it is spending someone else's money - but, it's not debt. You'll be told it's good business – but can't be left to choice.

The technical aspects of the bill are very confusing to most of us. Having a simple mind, I would like to address a few simple questions:

1) Is this debt? There are only two kinds of money – your own and someone else's. In private business, spending your own money creates equity and spending someone else's creates debt. This is debt.
2) Why is this debt mandatory? Because private companies the market thinks are pretty well managed haven't chosen to finance projects with 100% borrowed money
3) Will this bill affect investment? This bill mandates that shareholders take on the operational risk of potentially billions of dollars of plant and equipment with absolutely no potential for a

return. Risk up and return down means stock prices and dividends drop.

4) Is there a long-term impact to this bill? Lower stock prices mean less money to reinvest in future projects. If that money doesn't come from equity, it has to come from more debt. So, as anyone with credit card trouble can tell you, debt leads to more debt.

The "mandatory" in this bill means the state of Wisconsin, with some 9 billion dollars in debt, a 650 million dollar deficit and the 6th worst bond rating among the 50 states would decide what kind of debt and how much was enough for private businesses.

Would you buy stock in a company whose financial decisions were made by the state of Wisconsin? That is the choice tens of thousands of individual utility investors in Wisconsin will face if SB 448 becomes law.

If they choose to invest in other companies, either as a result of management decisions being made by government or because risk is increasing more than equity, stock prices will drop. Long term individual investors, many of whom are retired, will lose and utilities serving Wisconsin and employing people here find it more difficult to attract the capital needed for environmental and reliability investments.

That choice has implications that go far beyond any short term effect of this bill – harmful implications for Wisconsin retirees, investors and ratepayers.

Don't take our word for it. If the benefits of this financing scheme are so great, why not try it out on the state of Wisconsin? Securitize all nine billion dollars of state debt by selling the state's tax stream. According to claims, that debt would be viewed as AAA-rated, the interest rate would drop and the state would actually no longer have debt.

The fact is the state has the power to take advantage of this same resource. Over the past few years, the legislature has considered securitizing portions of the cigarette tax and the gas tax as a way to deal with its massive debt load. They have chosen not to use the tool being considered as a mandate today.

To put it mildly, the state's experience with large scale securitization has been controversial. Like SB 448, securitization of the revenue stream created by the tobacco settlement was a short term fix with long-term consequences.

The state has proven that large scale securitization of revenues creates long term problems. We also have plenty of evidence that Wisconsin's investor-owned utilities have more disciplined financial management than the state of Wisconsin. We have little evidence of government mandates making companies run better.

Please don't mandate excessive debt on strong companies. Please oppose Senate Bill 448.

Thank you.

Citizens Utility Board

March 10, 2008

The Honorable Members of the Senate Committee on Commerce, Utilities, and Rail
State Capitol
Madison, WI 53707

Re: Please oppose AB 347, relating to requiring the Public Service Commission to investigate future electric supplies.

Please support SB 448, relating to environmental trust bonds issued by energy utilities.

Dear Members of the Senate Committee on Commerce, Utilities, and Rail:

On behalf of the Citizens Utility Board, I would like to ask you to oppose AB 347, relating to requiring the Public Service Commission to investigate future electric supplies. In addition, I would like to ask you to support SB 448, relating to environmental trust bonds issued by energy utilities.

The Citizens Utility Board of Wisconsin (CUB) is a member-supported nonprofit organization that advocates for reliable and affordable utility service. CUB represents the interests of residential, farm, and small business customers of electric, natural gas, and telecommunication utilities before the Legislature, regulatory agencies, and the courts.

AB 347, relating to requiring the Public Service Commission to investigate future electric supplies....

This provision was drafted by the Special Committee on Nuclear Power, on which I served on behalf of CUB. Although we would like the PSC to strengthen its energy planning process, we oppose this legislation because it would unnecessarily restrict the analyses the PSC could use to plan for Wisconsin's future energy needs. In my opinion, the Special Committee did not have the time or the resources to develop a bill that would provide the PSC with the appropriate authority and framework for long-range energy planning. This bill would not lead to the development of useful energy plans.

SB 448, relating to environmental trust bonds issued by energy utilities.

This legislation would reduce the cost to ratepayers of pollution-control equipment that may need to be added to power plants throughout Wisconsin.

Because of federal and state regulations, utilities in Wisconsin may need to add pollution-control equipment to their power plants to reduce health- and environment-damaging pollutants.

Whenever utilities add new equipment to their facilities, they have to raise capital to pay for it. The utilities include the cost of the equipment and the financing charges in their electric rates, which means ratepayers ultimately pay for it through higher rates.

Utilities can finance large projects in different ways. In 2004, the Legislature and Governor Doyle enacted a new type of financing called "Environmental Trust Financing" (2003 Wisconsin Act 152, codified as Wis. Stats. 196.027). Environmental Trust Financing, or "ETF," allows utilities to issue bonds to pay for the equipment. Bond or "debt" financing is a less-expensive way to raise capital to pay for large projects than traditional utility financing, which uses a combination of debt and equity.

The bottom line is, when a utility uses debt financing to pay for a large project, electric rates will be lower than if the utility used a traditional combination of debt and equity. For example, ETF could save up to $500 million over 10 years on a $1 billion project to add pollution controls.

This legislation would amend 196.027 so that the utilities would be more likely to use ETF; so far, the utilities have not used this form of financing. The utilities claim this type of financing would threaten their profits and credit rating, even though the utilities made sure that the ETF legislation passed in 2004 would not cause them financial harm.

In a time of ever-increasing electric rates, CUB urges you to support SB 448, so that when utilities need to add pollution controls to their power plants, they will be more likely to finance the projects using Environmental Trust Financing, which will help keep electric rates in check.

Thank you for your consideration.

Sincerely,

Charlie Higley

Charlie Higley
Executive Director

Wisconsin Paper Council

WISCONSIN PAPER COUNCIL TESTIMONY IN SUPPORT OF SENATE BILL 448

Good morning Senator Plale and members of the Senate Commerce, Utilities and Rail Committee. My name is Earl Gustafson. I am Vice President – Energy, Forestry & Human Resources for the Wisconsin Paper Council, the trade association representing the pulp, paper and allied industry in the state.

The Council supports SB 448 because it is a prudent – and necessary – amendment to the Environmental Trust Financing statute[1]. That law, also championed by Senator Cowles, enables the creation of a trust from which low-cost bonds may be issued to finance costly environmental control projects required of utilities. It was intended as an optional tool to provide more economical financing of such projects.

In practice, however, utilities have not used this option, even though when employed in appropriate circumstances it could mean millions of dollars in rate savings for their residential, commercial and industrial customers, including papermakers.

Utilities point to a downside that if they use environmental trust bonds their earnings on those projects will be reduced. The Paper Council does not view that as a downside, but as cost mitigation.

Energy costs are one of the three largest expenditures for papermakers. The Paper Council has a track record supportive of a financially healthy utility industry. Utilities are, undeniably, entitled to a reasonable return on their energy producing services. But we are saddened that the ETF tool has been neglected because it is not sufficiently profitable. If utilities will not include consideration of this tool in the regulatory decision making process, then the PSC needs to be provided with authority to require consideration when its use may be appropriate.

Keep in mind, SB 448 does not <u>mandate</u> the use of Environmental Trust Financing. It prudently allows the PSC to require its <u>consideration</u>. Interests will have the opportunity to make a case, pro or con, for any financing options. SB 448 assures that all options can receive that consideration.

Because of the enormous expenditures for utility environmental compliance on our horizon – and because of the need to mitigate those costs – the Paper Council respectfully urges the legislature to provide the PSC with authority to consider a full range of financing options to balance the interests of utilities and their customers.

Thank you for this public hearing.

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[1] 2003 Wis. Act 152 and 2003 Wis. Act 326; Chapter 196.027, Wis. Stats.

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WISCONSIN CAST METALS ASSOCIATION
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Comments of Brian Mitchell on behalf of
Wisconsin Cast Metals Association
in Support of SB448
Senate Committee on Commerce, Utilities and Rail
Monday, March 10, 2008

Mr. Chairperson and Members of the Committee, I'm Brian Mitchell appearing on behalf of the Wisconsin Cast Metals Association in support of Senate Bill 448.

Nearly four years ago, 2003 Wisconsin Act 152 was passed to allow energy utilities, with the approval of the Public Service Commission (PSC), to finance the cost of certain environmental control activities by using environmental trust bonds. At that time, environmental trust financing was touted by some of the state's major utilities as an important new tool to help deal with the very substantial emission control expenditures they were facing.

Given the advertised benefits of low-interest environmental trust bonds, it is both perplexing and disappointing to the ratepayers of these same utilities that to date this form of financing hasn't been used. For that reason, we believe SB448 is timely in proposing a new role for the PSC in the process already established by law. This legislation essentially allows the PSC to initiate an application for environmental trust financing on qualified environmental control projects where a utility has not exercised its own authority to do so.

Why is this important today? Because electric rates in Wisconsin have risen nearly 40% over the last five years, a period during which $6 billion of capital investments has been made. It is estimated that electric utilities over the next decade may have to fund an additional $14 billion of new capital projects. Obviously not all of this investment will be for "environmental control activities" but a significant portion will be. If environmental trust bond financing can mitigate any part of the potential impact of this work on rates, than we believe its use should be pursued aggressively. That's why this bill is needed; it's a way to introduce some "public interest" considerations into a decision that's too important to be left simply as a corporate option. Utility rates touch every citizen of the state. They are crucial to the vitality of our economy, especially so for the manufacturing sector and energy-intensive industries such as ours.

Thank you for considering these comments and we urge your favorable action on SB 448.

Comments of William Skewes, Executive Director of the Wisconsin Utilities Association, regarding proposed amendment to environmental trust financing statute (SB 448).

In 2004, under Senator Cowles's leadership, Wisconsin enacted a statute that makes it possible for Wisconsin utilities to use environmental trust bonds to finance certain investments.

At the option of a utility -- and with the approval of the Public Service Commission -- the statute makes it possible to finance environmental control projects largely with debt, instead of the usual combination of debt and equity. The statute also provides for a special earmarked customer charge to pay the interest on and to retire such debt. This securitization feature, under ordinary circumstances, should result in triple-A credit ratings for this debt and a lower interest rate than might otherwise be available.

Wisconsin's statute was the first time this financing mechanism was made available to finance environmental control projects. Wisconsin, as it has often been in the public utility area, was a pioneer. Senator Cowles and the Legislature deserve a great deal of credit for making this mechanism available to Wisconsin utilities. This kind of leadership is a big part of the reason why Wisconsin has strong utilities providing reliable, economical electric power. Many other states are not as fortunate.

To my knowledge, one Wisconsin utility, We Energies, has tried to use the new statutory mechanism to finance environmental control projects. We Energies applied for a financing order from the PSC in 2004, shortly after the statute was enacted, and the PSC issued a financing order -- which is necessary under the statute -- in the fall of 2004. It is my understanding that We Energies, in cooperation with PSC staff, began putting an environmental trust bond issuance together but at the end of November 2004, the Dane County Circuit Court struck down We Energies' Power the Future project, creating financial uncertainty for the Company and causing it to put the proposed environmental trust bond issuance on the back burner.

The Wisconsin Supreme Court ultimately reinstated Power the Future and We Energies again took up the proposed environmental trust bond issuance. This time, as the Company explained in a letter to the Commission, complications arising out of federal securities laws prevented the issuance from being accomplished. In the meantime, We Energies sold its Point Beach Power Plant to FPL, yielding almost 900 million dollars of benefits for it's utility customers.

Other Wisconsin utilities, quite understandably, have been waiting to see how an environmental trust bond financing works out in practice, with We Energies, as the original proponent of this mechanism, leading the way.

So, where we are today is that, despite two attempts to do so, no Wisconsin utility has yet utilized the environmental trust bond financing mechanism. In response to that situation, you have a proposal before you to give the PSC the authority to compel utilities to use this mechanism. On behalf of the WUA, I would urge you not to give the PSC the power to make environmental trust bond financing mandatory.

One reason is that doing so will stifle innovation. We should not forget that the impetus to make this useful financial tool available in the first place came from the utility side. Senator Cowles was wise enough to understand the value of the proposal and, thanks to him, the necessary legislation was enacted. But would the idea have been proposed in the first place if the utilities had believed that rather than a tool they would be getting a mandate? It is doubtful.

Another reason is that the capital markets are complicated. Utility finance departments, aided by investment banks and other professional advisors, monitor the markets on a daily basis and in particular understand how the markets view the utility and its own financial profile. The Commission does not have the resources to make these kinds of financial decisions on behalf of the utilities.

We should also worry about the signal it would send to lenders and investors if they saw Wisconsin start down the road of having the Commission micro-manage utility financing. So far, the capital markets have been open to Wisconsin utilities on terms that utilities in other jurisdictions can only dream about. This has enabled our utilities -- with the oversight and support of the Commission -- to make necessary investments in reliability.

Another concern is that mandating environmental trust financing could result in an incentive for utilities to prefer building generation, on which they can earn a return, instead of retrofitting existing generation, where use of environmental trust financing prevents them from earning a return.

Finally, we have to remember that the cost of an environmental control project is not limited to the capital cost of emission control equipment. Once such equipment is installed, it will frequently result in additional on-going operating and maintenance expense. The way that rate regulation works, the utility would forecast this O&M expense, as it does its other costs, and the PSCW would include the estimated expense in rates. The utility takes the risk that these costs may turn out to be higher than its projections, in which case rates will not have been set high enough to recover the costs. This kind of risk is a regular feature of forward-looking ratemaking. Utilities are normally compensated for the risk of such under recovery by means of the rate of return they earn on the capital they invest in assets to provide utility service. But with environmental trust financing, they do not earn a return on the assets in question, yet they are exposed to the ongoing O&M costs. It is one thing for a utility to volunteer to take on such uncompensated risk; it is something else for regulators to mandate it.

It is understandable how it might be frustrating that, despite two good faith efforts, no utility has yet been able to utilize the environmental trust bond financing mechanism. The desire to mitigate costs to customers is also understandable. We believe, however, that the long-run harm from making use of this tool mandatory will far outweigh any short-run savings.

MEUW
MUNICIPAL ELECTRIC UTILITIES OF WISCONSIN

CELEBRATING 80 YEARS 1928 - 2008

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TO: Members, Senate Committee on Commerce, Utilities and Rail

FROM: David J. Benforado, Executive Director

DATE: March 10, 2008

RE: In Support of Senate Bill 448 (Environmental Trust Bonds).

The Municipal Electric Utilities of Wisconsin supports Senate Bill 448 regarding the use of environmental trust bonds by private utilities in Wisconsin.

Environmental trust bonds" (ETF) are currently an optional low-cost financing tool that can be utilized, at the option of the private energy utility and with the permission of the Public Service Commission (PSC), for the financing of emission reducing technologies. This new financing tool was added to the Wisconsin Statutes at the request of private utilities four years ago (see 2003 Wis. Act 152; with minor technical amendments to that law following in 2003 Wis. Act 326) and with MEUW's support. The overriding objective at the time was to create a financing tool that would allow the private utilities to economically pay for expensive emission reducing fixes to their fleet of power plants in a least cost fashion. Unfortunately the tool hasn't been utilized..

Senate Bill 448 would change the applicable law such that the Public Service Commission would need to consider ordering the private utility to issue ETF bonds for these investments, but does not mandate that they be used in every case. If enacted into law, the bill would add one more tool to the PSC's toolbox as they endeavor to keep customer electric bills as low as they can, while at the same time providing for the financial health of the private utilities as they respond to new state and federal environmental regulations.